

# Inspector General

## United States

## Department *of* Defense



Monitoring PowerTrack Payments for  
DoD Freight Transportation

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## **Acronyms and Abbreviations**

DFAS	Defense Finance and Accounting Service
FMR	Financial Management Regulation
GSA	General Services Administration
IG	Inspector General
OMB	Office of Management and Budget
TRANSCOM	U.S. Transportation Command



INSPECTOR GENERAL  
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April 9, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/DOD CHIEF  
FINANCIAL OFFICER

SUBJECT: Report on Monitoring PowerTrack Payments for DoD Freight Transportation  
(Report No. D-2009-072)

We are providing this report for your review and comment. We considered management comments on a draft of this report when preparing the final report and considered unsolicited comments on the finding provided by the United States Transportation Command.

The Under Secretary of Defense for Acquisition, Technology, and Logistics did not respond to the potential monetary benefits in the draft report. DoD Directive 7650.3 requires all issues to be resolved promptly. We request that the Under Secretary of Defense for Acquisition, Technology, and Logistics provide comments by May 9, 2009.

If possible, send your comments in electronic format (Adobe Acrobat file only) to [Aud-Colu@dodig.mil](mailto:Aud-Colu@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 601-5868 (DSN 329-5868).

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
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# Results in Brief: Monitoring PowerTrack Payments for DoD Freight Transportation

## What We Did

We determined whether DoD has established procedures to incorporate industry-wide best practices to minimize, identify, report, and recover improper payments for transportation services.

The U.S. Transportation Command (TRANSCOM) is the single manager of the DoD global transportation function. In FY 2007, DoD transportation offices paid freight shippers \$2.3 billion using PowerTrack, a U.S. Bank system DoD adopted in FY 1999 to pay electronically for freight services.

## What We Found

DoD internal controls over PowerTrack payments were not adequate. We estimated DoD should have identified between \$33.9 million and \$68 million in duplicate and improper payments in FY 2007 for freight transportation. It also did not take necessary steps to recover overpayments before the General Services Administration post payment auditors recovered the funds and returned them to the Treasury. These events occurred because DoD did not have processes in place to identify likely overpayments and did not take advantage of the resources available to monitor payments, identify overpayments, and immediately recover funds. We estimated that DoD could avoid or recover and retain up to \$307.3 million in overpayments over the Future Years Defense Program by improving the process of monitoring PowerTrack payments.

Additionally, the DoD Annual Financial Report did not contain information on duplicate or improper payments for freight transportation actually identified during payment reviews. As

a result, the FY 2007 Annual Financial Report did not identify PowerTrack payments as being a high-risk area.

## What We Recommend

The Under Secretary of Defense for Acquisition, Technology, and Logistics should:

- use data mining to monitor problematic payments for duplicate payment indicators;
- develop a pilot plan to implement processes to reduce the likelihood of PowerTrack overpayments, identify potential fraud indicators, and quickly recover overpayments; and
- maintain an agreement with the General Services Administration on delaying its post-payment audits six months to allow completion of DoD internal reviews.

We recommend that the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer include the U.S. Transportation Command in future improper payment surveys and ensure that PowerTrack payments are reported as a high-risk area in accordance with Office of Management and Budget Circular A-136, "Financial Reporting Requirements," June 29, 2007.

## Management Comments and our Response

The Deputy Under Secretary of Defense for Logistics and Materiel Readiness and the Under Secretary of Defense (Comptroller) agreed with the recommendations. The Deputy Under Secretary of Defense for Logistics and Materiel Readiness commented on behalf of the Under Secretary of Defense for Acquisition, Technology, and Logistics.

## **Recommendations Table**

<b>Management</b>	<b>Recommendations Requiring Comment</b>	<b>No Additional Comments Required</b>
Under Secretary of Defense for Acquisition, Technology, and Logistics		A.1., A.2., and A.3.
Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer		B.

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# Introduction

## Objectives

The audit objective was to determine whether DoD has established procedures to incorporate industry-wide best practices to minimize, identify, report, and recover improper payments for transportation services. This is the second in a series of audits on DoD transportation payments using PowerTrack.

## Background

The U.S. Transportation Command (TRANSCOM) is the single manager of the DoD global transportation system. It executes its mission through three Component commands: Air Mobility Command, Military Sealift Command, and the Military Surface Deployment and Distribution Command. TRANSCOM reported \$10.3 billion in FY 2007 revenue. In FY 2007, TRANSCOM summary reports indicate it paid freight shippers \$2.3 billion using PowerTrack, a U.S. Bank system adopted by DoD in FY 1999 to pay electronically for freight services.

TRANSCOM and its subordinate commands provide support for all of the DoD transportation needs. The transportation mission is especially crucial in time sensitive scenarios, such as in times of war. For example, since September 11, 2001, the Military Sealift Command has delivered more than 97 million square feet of combat vehicles, equipment, and supplies to Army, Marine Corps, Air Force, and Navy warfighters engaged in worldwide operations. In FY 2007, the Military Surface Deployment and Distribution Command synchronized 153 vessel operations and moved more than 10 million square feet of cargo in support of Operations Iraqi Freedom and Enduring Freedom. In addition, the Air Mobility Command moved 702,769 tons of cargo on airlift missions in FY 2007.<sup>1</sup>

DoD transportation offices used PowerTrack as the electronic system for paying freight shipments. PowerTrack is an electronic payment tool that eliminates paper from the freight payment process by automatically paying carriers and electronically billing shippers. It collects shipment and financial data for both shippers and carriers in a single electronic document that is used DoD-wide and is accessible over the internet to all other interested parties. According to TRANSCOM, DoD used PowerTrack for about 52 percent of the payments related to shipments by subordinate commands during FY 2007. The other 48 percent of the shipments involved air and sealift charters.

The PowerTrack payment process generally follows this sequence:

- The transportation officer receives a request to initiate a cargo movement.
- The Global Freight Management System, or local system, prices the shipment.

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<sup>1</sup> According to the FY 2007 TRANSCOM Annual Report

- The Global Freight Management System generates and sends an electronic billing to PowerTrack.
- The carrier enters delivery status into PowerTrack and submits price confirmation.
- The transportation officer approves payment to the carrier.
- U.S. Bank pays the carrier.
- Once a month, the transportation officer submits a summary invoice to the Defense Finance and Accounting Service (DFAS).
- DFAS remits payment to U.S. Bank.

After DFAS remits payments to U.S. Bank, the General Services Administration (GSA) performs post-payment audits to verify the accuracy of the payments. GSA received authority to audit Government transportation payments in 1940.

Private industry and the Government use techniques and processes, such as data mining and Lean Six Sigma, to detect, analyze, and prevent overpayments and eliminate waste.

Data mining is an automated detection process that uses computer programs to scan databases to detect patterns, trends, and anomalies. DFAS and transportation industry experts use data mining in risk management or other areas of analysis to identify overpayments. Data mining software compares two or more data fields or sets to confirm consistent input.

Lean Six Sigma is a methodology that uses metrics and analysis to improve an organization's processes, practices, and performance. The ultimate goal of Lean Six Sigma is to use data-driven decision making to optimize business capabilities by eliminating non-value added work, focusing on customers, and improving quality.

## **Review of Internal Controls**

We determined that an internal control weakness in DoD oversight of PowerTrack payments existed as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. DoD internal controls were not adequate. OMB Circular A-123, "Management's Responsibility for Internal Control," August 10, 2006, states that Federal agencies should take all necessary steps to ensure the accuracy and integrity of Federal payments. DoD did not adequately monitor freight payments to identify duplicate and improper payments before GSA post-payment audits. Implementing Recommendations A.1., A.2., and A.3. will improve DoD oversight of freight payments made through PowerTrack. We will provide a copy of this report to the Under Secretary of Defense for Acquisition, Technology, and Logistics, officials responsible for internal controls.

## **A. Controls Over Monitoring PowerTrack Transportation Payments**

DoD internal controls over PowerTrack payments were not adequate. We estimated DoD should have identified between \$33.9 million and \$68 million in duplicate and improper payments in FY 2007 for freight transportation. It also did not take necessary steps to recover overpayments before the General Service Administration post payment auditors recovered the funds and returned them to the Treasury. These events occurred because DoD did not have processes in place to identify likely overpayments and did not take advantage of the resources available to monitor payments, identify overpayments, and immediately recover funds. Unless DoD improves its monitoring process, GSA will recover the funds through the GSA post-payment audit process and DoD will continue to lose the funds. We estimated that DoD could avoid or reclaim up to \$307.3 million in overpayments over the Future Years Defense Program<sup>2</sup> by improving the process of monitoring PowerTrack payments.

### **Transportation Areas at Risk for Overpayments**

Past studies, audits, and investigations of transportation payments identified many areas where PowerTrack transportation payments were vulnerable for overpayment and fraud. In FY 2005, the Defense Finance and Accounting Service (DFAS) Office of Internal Review coordinated and hosted the “PowerTrack/Transportation Subject Matter Expert Conference” to identify potential indicators of fraud and abuse within PowerTrack. The conference included data mining experts, auditors, criminal investigators, transportation officers, PowerTrack system experts, and a representative from U.S. Bank. The subject matter experts identified 138 potential indicators of fraud and abuse. Of the 138 potential indicators, 52 were rated as high risk. The following shows 10 of the vulnerable (high-risk) areas.

1. Invoices from carrier for invalid/non-existent services.
2. Preferential treatment given to carrier.
3. Use of automated approval.
4. Frequent overrides.
5. Double/duplicate billing (same amount, date, or bill of lading) (phantom shipment) (shipment made via different mode than billed).
6. Prime and subcontractor billed for same services.
7. Multiple vendors/carriers using same billing address.
8. Multiple vendors/carriers using same bank account.
9. Personal use shipments.
10. Bills to multiple Military Departments – duplicate.

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<sup>2</sup> The Future Years Defense Program is the program and financial plan for DoD as approved by the Secretary of Defense. The Future Years Defense Program organizes cost data and force structure over a 6-year period and provides this to Congress in conjunction with the President’s budget.

The following describe subsequent reviews and audits that identified other risk areas.

- GSA told us they identified \$33.9 million in improper or duplicate payments during post-payment audits of DoD PowerTrack transactions in FY 2007.
- In FY 2007, a DoD criminal investigation resulted in a \$28 million settlement from an air cargo company that handles shipments to Iraq and Afghanistan.<sup>3</sup> The company admitted falsifying a document to show an "on time" delivery date even though the company made the delivery later than the date reported.
- A DoD Inspector General (IG) audit found that controls over PowerTrack ocean freight transportation payments were inadequate to prevent duplicate payments and were vulnerable to fraudulent manipulation. The audit projected \$14.1 million in refunded and non-refunded duplicate payments that occurred in FY 2007.<sup>4</sup>
- Another DoD IG audit disclosed problems with PowerTrack transportation payments at Defense Distribution Depot Susquehanna. The auditors identified \$252,000 in overpayment refunds from contractors that occurred from February 2006 to February 2007.<sup>5</sup>

## **Using Data mining Techniques to Reduce Risk of Overpayment**

DoD did not reduce its risk of overpayments by implementing data mining techniques to identify potential duplicate or improper payments. At the time of this audit, DoD did not have a data mining effort ongoing to monitor transportation payments.

Data mining is an automated detection process that uses computer programs to scan databases to detect patterns, trends, and anomalies. DFAS and transportation industry experts use data mining in risk management or other areas of analysis to identify overpayments. Data mining compares two or more data fields or sets to confirm consistent input.

Office of Management and Budget (OMB) Circular A-123, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," August 10, 2006, recommends agencies, including DoD, use techniques such as data mining to identify and recover improper payments. Although DoD used it in other areas, DoD did not use it for

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<sup>3</sup> According to the Department of Justice, the settlement amount includes a fine of \$8.8 million, restitution of \$4.4 million, a civil forfeiture claim of \$7.4 million, and a civil qui tam action of \$7.4 million.

<sup>4</sup> DoD IG Report No. D-2008-132, "Ocean Freight Transportation Payments Using PowerTrack," September 26, 2008.

<sup>5</sup> DoD IG Report No. D-2008-096, "Identification and Reporting of Improper Payments by the Defense Logistics Agency," May 20, 2008.

PowerTrack payments. If DoD implemented data mining techniques, it could minimize the risk of undetected improper payments to transportation contractors.

DoD can use data mining techniques throughout the payment process to proactively look for indicators of improper or duplicate payments and potentially identify duplicate or improper payments before final payment. DoD used the recovery techniques successfully in other areas. In particular, DFAS data mining staff have used data mining techniques to monitor DoD payments. In addition, in the recent past, the DFAS PowerTrack Program Management Office expressed interest in using data mining.

A primary reason DoD should immediately establish a proactive monitoring process is that DoD has not been able to recover lost funds. DoD has relied on GSA post-payment audits to monitor overpayments. Once GSA is involved in the post-payment process, any funds it recovers for DoD are returned to the Treasury and are not provided to DoD again for DoD use.

Senior GSA and DoD officials told us that the PowerTrack process includes prepayment controls that should prevent payment problems such as those discovered during GSA post-payment audits. DoD officials indicated that data mining could be used as an effective tool in identifying the problem payments.

## **Post-Payment Audits**

The Under Secretary of Defense for Acquisition, Technology, and Logistics should work with GSA to maintain a delay of GSA post-payment audits in the transportation area.

GSA routinely performed post-payment audits of DoD PowerTrack transactions as part

of its responsibility for auditing the accuracy of all Government transportation payments.

A GSA post-payment audit is an analysis of procurement and payment documents to

identify overpayments to contractors. In 1940, the Transportation Act of 1940 as

amended, section 3726, title 31, United States Code (31 U.S.C. 3726), gave GSA

statutory authority to audit the accuracy of all Government transportation payments.

According to 31 U.S.C. 3726, GSA has the responsibility and authority to audit payments

made for transportation services for, and on behalf of, the U.S. Government. At the time

of our audit, the GSA Office of Transportation and Property Management Audit Division

performed this function after a delay of six months from date of payment.

We obtained GSA post-payment summary audit results for FY 2006 and FY 2007. The results confirmed that the DoD transportation payment area requires DoD to use a more proactive monitoring approach. In FY 2006, GSA completed post-payment audits of DoD PowerTrack transactions and identified overpayments of \$9.4 million. In FY 2007, GSA identified another \$33.9 million—a 260 percent increase—for a total of

\$43.3 million in PowerTrack overpayments in 2 years.<sup>6</sup> GSA is required to return recovered funds, less expenses, to the Department of Treasury. As a result, DoD loses access to the recovered funds.

Recovery audit companies indicate that GSA will identify between three and five percent in transportation overpayments. Three recovery audit companies (vendors involved in recovery auditing programs that provided information from their recoveries in the transportation field) stated that by using mining techniques and process improvements they were able to recover between 3 and 5 percent of their clients' freight payments.<sup>7</sup> It was their collective opinion that transportation payments were risky and subject to error.

DFAS post-payment audit personnel, familiar with DFAS audits of DoD-wide payments, told us that the amount of overpayments identified and recovered through its post-payment audits is directly related to the time elapsed since the payment was disbursed and audited: that is, a rapidly conducted audit identifies more errors. Paragraph 220302(d) of the DoD Financial Management Regulation (FMR), volume 10, chapter 22, "Recovery Audit," December 2005, indicates that it takes 180 days to complete internal control procedures on other DoD vendor payments before recovery audits may begin. GSA indicated that under the current process, it usually does not begin its post-payment audits for six months. GSA told us that it is their goal to complete PowerTrack payment audits within 60 days and that it has immediate access to PowerTrack records. However, GSA told us they are willing to continue the 6-month delay for DoD to perform its own review of PowerTrack transactions.

## **Implementing Other Process Improvements**

According to the DoD Enterprise Transition Plan, DoD did not have a plan to monitor and improve the process of paying contractors for freight shipments. In particular, it had not engaged in a "Lean Six Sigma" program, a program that is widely used by agencies throughout the Federal Government and in many areas of DoD.

In FY 2007, the Deputy Secretary of Defense established a project team to use monitoring practices, such as Lean Six Sigma, throughout DoD. Lean Six Sigma is a methodology that uses metrics and analysis to improve an organization's processes, practices, and performance. The ultimate goal of Lean Six Sigma is to use data-driven decision making to optimize business capabilities by eliminating non-value added work, focusing on customers, and improving quality.

The Deputy Under Secretary of Defense for Business Transformation produces an Enterprise Transition Plan each year that provides details on DoD transformation progress, including Lean Six Sigma. According to the FY 2007 Enterprise Transition Plan, DoD was engaged in a massive business transformation effort to become a more

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<sup>6</sup> These are summary results as provided by the Director GSA Transportation Audit Division. We did not verify their accuracy and we did not analyze the recovered funds to determine whether the accounts were active or expired.

<sup>7</sup> We did not review or verify the vendor recovery rates.

“nimble, adaptive organization.” The Deputy Under Secretary of Defense for Business Transformation testified to the United States Senate Armed Services Committee on February 7, 2008, that DoD Components have almost 20,000 active and completed Lean Six Sigma projects. He further stated:

[Lean Six Sigma] is an important part of the Department’s Continuous Process Improvement effort. A disciplined improvement methodology, [Lean Six Sigma] has been endorsed by DoD leadership as the means by which the Department will become more efficient in its operations and more effective in its support of the warfighter. By focusing on becoming a “lean” organization, the DoD will eliminate waste, improve quality and put its resources and capital to the best use in meeting the goals of the Enterprise Transition Plan.

DoD successfully implemented Lean Six Sigma across diverse business areas. For example:<sup>8</sup>

- The Naval Air Systems Command joined with Raytheon to complete a Lean Six Sigma project, which ultimately saved \$133.5 million across the 2006 Future Year Defense Program and \$421 million over the life of the Joint Standoff Weapon Block II program.
- The Warner Robins Air Logistics Center in Georgia won the Shingo Gold Prize for Excellence in Manufacturing, named after a Japanese Lean Six Sigma leader, after it used Lean Six Sigma principles to reduce repair times for C-5 aircraft to an average of 210 days from 390 days.
- The Army estimates that in calendar year 2007, they achieved an estimated savings of \$1.3 billion by using continuous process improvements and Lean Six Sigma.<sup>9</sup>

DoD could successfully use the Lean Six Sigma program to monitor and improve its freight transportation payment process. We believe DoD should evaluate use of a program, such as Lean Six Sigma, to determine how it can better monitor its high-risk PowerTrack payment functions. Specifically, DoD should focus on highly vulnerable areas and identify ways to reduce non-value added steps and more rapidly complete its payment reviews, eliminate errors, and improve its freight payment quality control process to minimize potential overpayments and fraud. We believe DoD should develop a plan to implement a process to reduce the likelihood of PowerTrack overpayments and to identify potential fraud indicators.

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<sup>8</sup> As reported by DoD. We did not audit or verify these for accuracy.

<sup>9</sup> Paraphrased excerpt from Prepared Statement of Deputy Under Secretary of Defense for Business Transformation before the United States Senate Armed Services Committee, February 7, 2008.

## **Estimates of Potential Returns**

DoD could recover or prevent overpayments every year by using data mining techniques and by using a program such as Lean Six Sigma to improve and monitor the payment process.

We believe that the recovery companies' estimate of a 3-percent error rate is conservative and is applicable to PowerTrack freight transportation payments. We believe that PowerTrack payments are high risk and a 3-percent recovery rate is a conservative estimate because of the complexity and magnitude of the DoD global transportation system. Using the 3-percent error rate, we calculated that DoD could recover or prevent \$68.280 million in overpayments from the \$2.276 billion in FY 2007 PowerTrack payments annually. We estimated that, to recover the overpayments, costs would be 25 percent of the amounts recovered. The 25 percent represents contingency fees paid to contractors or costs incurred internally to DoD. The net potential monetary benefit could be \$51.210 million per year or \$307.3 million<sup>10</sup> over the Future Years Defense Program (FYs 2009 through 2014). See Appendix B for summary of potential monetary benefits.

## **Conclusion**

We concluded that, because of the risk of overpayments and potential for fraud, DoD should use data mining techniques to identify improper payments. It should proactively mine the payments before GSA recovers the payments during their post-payment audit and the funds are lost to DoD. DoD should also use a process, such as Lean Six Sigma, to identify ways to monitor and more rapidly complete its payment reviews, eliminate errors, and improve its quality control process to minimize potential fraud.

## **Management Comments on the Finding and Our Response**

### ***U.S. Transportation Command Comments***

Although not required to comment, the U.S. Transportation Command requested a minor wording change to clarify information related to a prior audit shown in the third bullet on page 4.

### ***Our Response***

We modified the draft report and changed "The audit identified" to "The audit projected."

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<sup>10</sup> The calculated amount is \$307.260 million. The difference is due to rounding.

## **Recommendations, Management Comments, and Our Response**

### **A. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics:**

- 1. Use data mining to monitor problematic payments for duplicate payment indicators.**
- 2. Develop a pilot plan to implement a process to reduce the likelihood of PowerTrack overpayments, identify potential fraud indicators, and quickly recover overpayments.**
- 3. Maintain an agreement with the General Services Administration on delaying its post-payment audits six months to allow DoD to complete internal reviews.**

### ***Deputy Under Secretary of Defense for Logistics and Materiel Readiness Comments***

A representative from the Deputy Under Secretary of Defense for Logistics and Materiel Readiness provided comments on behalf of the Under Secretary of Defense, Acquisition, Technology, and Logistics. He agreed with the recommendations in this report. For Recommendation A.1, he indicated that DoD would convene a meeting of oversight personnel no later than April 30, 2009, to determine the best approach for monitoring suspect PowerTrack payments. In response to Recommendation A.2, he partially agreed but indicated that DoD will develop a comprehensive plan to prevent overpayments and that the General Services Administration would be responsible for the recovery of overpayments. DoD will complete the plan by August 31, 2009. For Recommendation A.3, he stated that DoD will complete an agreement with the General Services Administration by April 30, 2009.

### ***Our Response***

The Deputy Under Secretary of Defense for Logistics and Materiel Readiness comments are responsive and meet the intent of our recommendations. Although he partially agreed with recommendation A.2, we consider his comments responsive to the recommendation. Specifically, he agreed to develop a comprehensive plan to target the upfront validation services and charges before payment to the carrier. Successful implementation of his plan will improve controls and should prevent erroneous payments that require recovery actions by the General Services Administration. We agree that pursuit of recovering any overpayments not detected by an improved process will continue to be a responsibility of the General Services Administration.



## B. Reporting PowerTrack Overpayments

The DoD Annual Financial Report did not report duplicate or improper payments for freight transportation. This occurred because TRANSCOM was not included as a respondent to the annual improper payments survey. The annual survey is the current method for providing improper payment data to the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer for compilation in the Annual Financial Report. As a result, in FY 2007 the amount of improper payments reported in the Annual Financial Report did not include \$33.9 million identified by GSA or the \$14.1 million identified by the DoD IG.<sup>11</sup> We estimate overpayments may have been as much as \$68 million in FY 2007. In addition, the FY 2007 Annual Financial Report did not identify PowerTrack payments as being a high-risk area.

### Indications of Risk

DoD functional experts from Defense Manpower Data Center and DFAS, investigators, and auditors showed that DoD transportation payments were at high risk for overpayments because of the complexity of DoD operations. Specifically:

- PowerTrack subject matter experts identified 52 high risk factors.
- GSA told us it identified \$33.9 million in PowerTrack overpayments in FY 2007.
- A criminal investigation recovered a \$28 million settlement from an air cargo company that falsely manipulated PowerTrack delivery dates.<sup>12</sup>
- The DoD IG identified \$14.1 million in refunded and non-refunded duplicate payments.
- The DoD IG identified \$252 thousand in refunded PowerTrack payments from Defense Distribution Depot contractors.

DoD should report information on the recovery of PowerTrack payments in the FY 2009 DoD Annual Financial Report and show PowerTrack payments as being at high risk for improper payments. OMB Circular A-136, “Financial Reporting Requirements,” June 29, 2007, requires agencies to report this information.

The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer did not include TRANSCOM in its FY 2007 improper payments survey. We concluded that, because of the risk indicators shown above, the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer should include TRANSCOM in future improper payments surveys.

We estimate that the FY 2007 DoD Annual Financial Report did not show between \$33.9 million and \$68 million in PowerTrack overpayments. Specifically, it did not show

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<sup>11</sup> We did not determine whether these amounts are mutually exclusive.

<sup>12</sup> According to the Department of Justice, the settlement amount includes a fine of \$8.8 million, restitution of \$4.4 million, a civil forfeiture claim of \$7.4 million, and a civil qui tam action of \$7.4 million.

\$33.9 million in PowerTrack overpayments identified for recovery by GSA or \$14.1 million in duplicate payments identified by the DoD IG.<sup>13</sup> Additionally, as discussed in Finding A page 8, we estimate that overpayments may have been as much as \$68 million of the \$2.3 billion in PowerTrack freight payments made in FY 2007.

## **Conclusion**

Recent audits and criminal investigations show that PowerTrack payments were susceptible to error and fraud, and the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer should report them as a high-risk area in the Annual Financial Report. The Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer should also report any duplicate or improper payments identified for recovery in the DoD Annual Financial Report.

## **Recommendation, Management Comments, and Our Response**

**B. We recommend that the Under Secretary of Defense (Comptroller)/DoD Chief Financial Officer include the U.S. Transportation Command in future improper payment surveys and ensure that PowerTrack payments are reported as a high-risk area in accordance with Office of Management and Budget Circular A-136, "Financial Reporting Requirements," June 29, 2007.**

### ***Under Secretary of Defense (Comptroller) Comments***

The Acting Deputy Chief Financial Officer provided comments on behalf of the Under Secretary of Defense (Comptroller). He agreed to obtain and to report improper transportation payment information in the FY 2009 Annual Financial Report. He stated that his office will request the Under Secretary of Defense for Acquisition, Technology, and Logistics provide the annual amount of improper DoD transportation payments identified and recovered by the General Services Administration.

### ***Our Response.***

The Acting Deputy Chief Financial Officer comments are responsive and meet the intent of our recommendation.

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<sup>13</sup> We did not determine whether these are mutually exclusive.

## **Appendix A. Scope and Methodology**

We conducted this performance audit from March 2008 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We determined whether DoD complied with the requirements of OMB Circular A-123, "Management's Responsibility for Internal Control," August 10, 2006, and DoD FMR, volume 10, chapter 22, "Recovery Audit," December 2005. We reviewed past DoD IG and Defense Logistics Agency audit reports, criminal investigation press releases, Congressional testimony, meeting minutes, DoD reports and plans, and interviewed DoD and GSA personnel. We determined whether DoD implemented Lean Six Sigma to prevent overpayments and used recovery techniques to identify and recover overpayments.

We used FY 2007 and FY 2008 PowerTrack summary data provided by TRANSCOM. TRANSCOM provided a spreadsheet and chart showing freight payments made in PowerTrack. According to TRANSCOM, they used a prototype data pull to compile the summary data. TRANSCOM stated that the data is not from official records and should not be audited. We did not verify the accuracy of the data.

GSA provided PowerTrack post-payment audit results for FY 2006 and FY 2007. As a result, we did not estimate potential recoveries for prior years.

We obtained information on recovery rates from three recovery audit companies. We used this information to corroborate our conclusion that DoD transportation payments are risk prone and should be monitored for accuracy. We did not review or verify the potential recovery rates claimed by the recovery audit companies. The DoD IG Quantitative Methods Division approved our rationale and methodology for determining potential monetary benefits using transportation industry estimates.

We reviewed the FY 2007 Annual Financial Report section related to improper payments and recovery auditing. We obtained testimony records, DoD Annual Financial Reports, DoD Regulations, and DoD Enterprise Transformation Plans from DoD and Government internet sites. We also contacted GSA, DFAS, and TRANSCOM for information related to reporting transportation overpayments.

## **Use of Computer-Processed Data**

We reviewed the controls of the PowerTrack system and the testing of the PowerTrack system performed by an independent auditor. Because of the specified procedures performed by the independent auditor, we believe the PowerTrack computer-processed data are reliable and, therefore, will have no affect on the results of the audit. We relied

on management reports created by queries and compilations from PowerTrack. GSA did not state whether it used computer processing to compile the PowerTrack post-payment audit results.

## **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (DoD IG) issued two reports discussing controls over PowerTrack and improper payments. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### ***DoD IG***

DoD IG Report No. D-2008-132, “Ocean Freight Transportation Payments Using PowerTrack,” September 26, 2008

DoD IG Report No. D-2008-096, “Audit of Identification and Reporting of Improper Payments by the Defense Logistics Agency,” May 20, 2008

## Appendix B. Summary of Potential Monetary Benefits

Recommendation	<u>Reference</u>	<u>Type of Benefit</u>	<u>Amount of Benefit</u>	<u>Account(s)</u>
	A.1., A.2., and A.3.	Cost Recovery of improper payments made to transportation contractors.	\$307.3 million. The benefit amount will be revised as Components recover freight overpayments.	Army, Navy, Air Force and Defense Operations and Maintenance Accounts.



# Deputy Under Secretary of Defense for Logistics and Materiel Readiness Comments



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

FEB 27 2009

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL AND DIRECTOR,  
DEFENSE BUSINESS OPERATIONS, DoDIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *W/21/09*

SUBJECT: Response to DoDIG Draft Report on Monitoring PowerTrack Payments for  
DoD Freight Transportation (Project No. D2008-D000FJ-0006.001)

This memorandum provides the Office of the Under Secretary of Defense's (Acquisition, Technology, and Logistics) response to recommendations from the subject draft report

**Recommendation A.1.:** The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics use data mining to monitor problematic payments for duplicate payment indicators.

**Response:** Concur. The Department will convene a meeting of the Third Party Payment System (TPPS) Oversight Council to determine the most practical approach to monitoring suspect payments made by the PowerTrack system. After an approach is identified and roles and responsibilities determined, a suitable solution will be pursued and implemented. We expect to hold the next TPPS meeting by April 30, 2009.

**Recommendation A.2.:** The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics develop a pilot plan to implement a process to reduce the likelihood of PowerTrack overpayments, identify potential fraud indicators, and quickly recover overpayments.

**Response:** Partially Concur. The Department will develop a comprehensive plan that serves to prevent erroneous payments being made to commercial carriers. The plan will target the upfront validation of completed services and appropriate, accurate charges for transportation support before paying commercial carriers. We expect this action to be completed by August 31, 2009. The Department does not support the recommendation to pursue overpayment recovery as this is a General Services Administration (GSA) responsibility.



**Recommendation A.3.:** The OIG recommended that the Under Secretary of Defense for Acquisition, Technology, and Logistics maintain an agreement with GSA to delay its post-payment audits six months to allow DoD to complete internal reviews.

**Response:** Concur. The Department will establish an agreement with GSA to delay their post-payment audit activities six months to allow time for internal review. We expect this action to be completed by April 30, 2009.

My point of contact is Mr. Rod Callewaert, OADUSD (TP), 703-601-4461, extension 116.



Jack Bell

# Office of the Under Secretary of Defense (Comptroller) Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON DC 20301-1100

FEB 09 2009

## MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL, DIRECTOR, DEFENSE BUSINESS OPERATIONS PROGRAM

SUBJECT: Response to Draft Audit Report, Monitoring PowerTrack Payments for  
DoD Freight Transportation (Project No. D2008-D000FJ-006.001)

This memorandum provides the Office of the Under Secretary of Defense's (Comptroller) response to Recommendation B from the subject draft report which states:

We recommend that the Under Secretary of Defense (Comptroller)/Chief Financial Officer include the U.S. Transportation Command in future improper payment surveys and ensure that PowerTrack payments are reported as a high-risk area in accordance with Office of Management and Budget Circular A-136, "Financial Reporting Requirements," June 29, 2007.

The Department concurs. We will request that the Under Secretary for Acquisition, Technology and Logistics (AT&L) report to us the amount of GSA's annual identifications and recoveries of improper transportation payments for the FY 2009 Agency Financial Report. Presently, the General Services Administration (GSA) has the responsibility and authority to audit payments made for transportation services for and on behalf of the U.S. Government and does this for AT&L to identify improper payments in the U.S. Transportation Command's PowerTrack payment system.

The Department appreciates the opportunity to review and provide comments on the subject report. My points of contact on this matter are Sally Beecroft and Charlotte Beacham. They may be contacted by email at [sally.beecroft@osd.mil](mailto:sally.beecroft@osd.mil) and [charlotte.beacham@osd.mil](mailto:charlotte.beacham@osd.mil) or by telephone at (703) 602-0198 and (703) 602-0250, respectively.

A handwritten signature in black ink, appearing to read "D P Smith".

David P. Smith  
Acting Deputy Chief Financial Officer

# United States Transportation Command Comments

Final Report  
Reference



UNITED STATES TRANSPORTATION COMMAND  
508 SCOTT DRIVE  
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

30 Dec 08

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL  
ATTENTION: MS BEATRICE WUNDERLE

FROM: TCJ8

SUBJECT: Comments for Draft Report on Monitoring Power Track Payments for DoD Freight  
Transportation (Project No. D2008-D000FJ-0006 001)

1. United States Transportation Command (USTRANSCOM) has no comments on the DODIG recommendations for the Under Secretary of Defense for Acquisition, Technology, and Logistics.
2. USTRANSCOM does feel however there should be a minor change to the body of the audit report, specifically page 4, third bullet paragraph from the top. This paragraph reads - "A DODIG audit found that controls over PowerTrack ocean freight transportation payments were inadequate to prevent duplicate payments and were vulnerable to fraudulent manipulation. The audit identified \$14.1 M in refunded and non-refunded duplicate payments that occurred in FY 2007". The observation is the second sentence - "The audit identified \_\_\_\_\_. " DODIG used statistical sampling of transactions in their audit fieldwork to make projections. The signed audit report (D-2008-132, Ocean Freight Transportation Payments Using PowerTrack page 3 reads: "We projected that of the 5,619 high-risk non-direct booking transactions ..".
3. Suggest DODIG reword the second sentence of page 4, third bullet paragraph from the top to read: "The audit projected \$14.1M in refunded and non-refunded duplicate payments occurred in FY 2007";
4. Point of contact is Mr Earl Landwehr, TCJ8-A, DSN 779-5037, Commercial 618-229-5037, or email - [earl.landwehr@ustranscom.mil](mailto:earl.landwehr@ustranscom.mil)

Revised, Page 4

The handwritten signature of Alan K. Bentley.  
ALAN K. BENTLEY  
Director, Program Analysis  
and Financial Management

cc:  
SDDC  
TCIG





# Inspector General Department *of* Defense



Report